R4105-G

The Conference Board

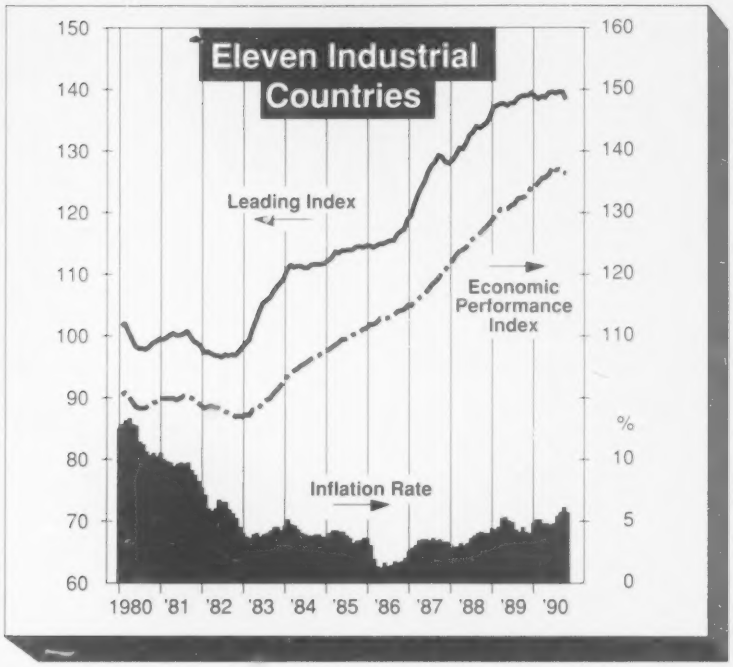
Volume 13, Number 1 January 1991

International Economic Scoreboard

INSIDE:

- **Global Economic Slowdown Confirmed**
- **Inflation Subsiding a Bit After Oil Price Surge**
- **Downturn in the U.S. — How Severe?**

World Business Cycle



Summary of Growth Rates, Eleven Industrial Countries

	Ten-year Growth Rate 1976-86	Indexes of Economic Performance Growth Rates *			Leading Business Cycle Indexes Growth Rates *			Current Reading on the Cycle	Latest Month Covered
		6 mos. ago	3 mos. ago	Latest month	6 mos. ago	3 mos. ago	Latest month		
Eleven countries	3	4	4	1	1	1	-1	Expansion stopped, leaders weak	Oct.
Ten countries (U.S. excl.)	3	7	6	3	2	2	0	Expansion continuing, leaders weak	Oct.
North America (2)	3	1	1	-2	-2	1	-1	Expansion stopped, leaders weak	Oct.
Europe (4)	2	6	6	4	1	2	1	Expansion continuing, leaders weak	Oct.
Pacific Region (5)	4	8	7	4	3	2	-2	Expansion continuing, leaders weak	Oct.
United States	3	1	0	-4	0	1	-4	Expansion stopped, leaders weak	Nov.
Canada	3	2	1	-2	-5	-3	-3	Expansion stopped, leaders weak	Oct.
Germany	2	6	7	6	3	4	5	Expansion continuing	Oct.
France	2	8	8	5	0	1	1	Expansion continuing, leaders weak	Oct./Nov.
United Kingdom	2	4	3	1	-1	-3	-1	Expansion stopped, leaders weak	Oct./Nov.
Italy	2	5	3	1	1	1	-2	Expansion stopped, leaders weak	Oct.
Japan	4	8	7	5	5	0	-2	Expansion continuing, leaders weak	Nov.
Korea, R.O.K.	7	8	8	3	4	3	5	Expansion continuing	Nov.
Australia	3	0	-4	-11	-5	-5	-4	Recession continuing	Nov.
New Zealand	2	2	-3	0	-2	-2	-5	Leaders weak	Oct.
Taiwan, R.O.C.	8	2	-2	2	3	-3	-1	Expansion resumed, leaders weak	Nov.

* Ratio of current month's index over the preceding 12 months, expressed as a compound annual rate.

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Overview

Drifting Into Recession

The global business cycle continues to settle in the direction of recession. The growth rate for the 11-country economic performance index is down to 1 percent, the slowest in 8 years, while the leading index is **falling** at a 1 percent rate, its first descent into negative territory since 1982.

The weakness in the 11-country indexes stems from an international broadening of the downturn rather than from a more intense decline in a few countries. At latest readings, the leading indicators are losing ground in 8 of 11 countries, compared with 6 that were on the decline a month ago. This is the most widespread pattern of weakness since 1974.

Worries about inflation are easing just a bit, thanks both to the passing of the surge in oil prices, now mostly behind us, and to the business-cycle weakness making it tougher for sellers to get price hikes to stick. The latest 11-country inflation rate, although still higher than 3 or 6 months ago, dropped almost half a point from October to November. Over the past month, furthermore, the number of countries with a lower inflation rate now than 3 months earlier has increased from four to seven.

Summary of Inflation Rates, Eleven Industrial Countries

	Ten-year Inflation Rate 1979-89	*6 mos.* ago*	*3 mos.* ago*	*Latest* month*	*Current Reading on Inflation*	*Latest Month Covered*
		annual rates, percent				
Eleven countries	5.3	4.8	5.4	5.7	Rising	Nov.
Ten countries (U.S. excl.)	5.2	4.5	4.9	5.2	Rising	Nov.
North America (2)	5.6	4.6	5.8	6.1	Rising	Nov.
Europe (4)	6.6	5.4	5.9	5.5	Volatile	Nov.
Pacific Region (5)	3.4	4.2	3.8	4.7	Rising	Nov.
United States	5.5	5.1	6.4	5.8	Volatile	Dec.
Canada	6.5	3.8	3.8	5.5	Rising	Nov.
Germany	2.9	2.1	3.2	2.9	Volatile	Dec.
France	7.3	3.0	3.6	3.9	Rising	Nov.
United Kingdom	7.3	11.4	11.5	8.3	High but Falling	Nov.
Italy	11.2	5.5	6.4	6.6	Rising	Dec.
Japan	2.5	3.2	3.1	4.5	Rising	Nov.
Korea, R.O.K.	8.1	11.0	9.8	8.6	High but Falling	Nov.
Australia	8.4	7.7	7.4	5.1	Falling	Aug.
New Zealand	11.8	5.9	6.4	5.4	Falling	Aug.
Taiwan, R.O.C.	4.4	5.4	5.4	2.3	Falling	Nov.

* Ratio of current month's index over the preceding 12 months, expressed as a compound annual rate.

In the United States — How Deep a Recession?

How severe the recession will be is the question most frequently asked about the current U.S. business cycle. Most analysts are on the optimistic side, arguing that (1) tight control of inventories and (2) sustained growth in exports — because of the advantageous position the depressed dollar provides for American producers in world markets — will mean a comparatively mild recession. The pessimists worry that the international scope of the recession and the strained capital position of many U.S. banks — which may restrict the credit needed to finance cyclical recovery — will lengthen and deepen the recession.

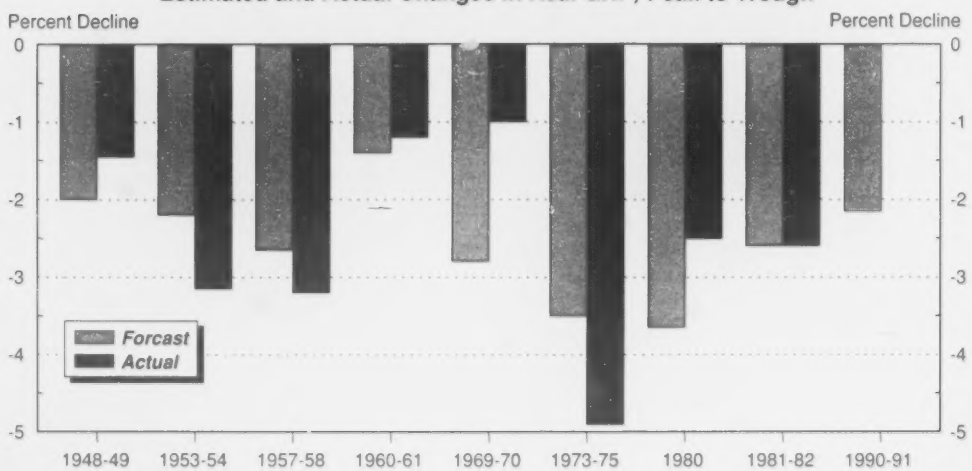
Some research conducted recently at the Center for International Business Cycle Research can be used to test these sentiments. The analysis makes use of the Center's Long Leading Index (see the Third Quarter 1990 *Scoreboard*, p. 5), which historically has peaked in advance of the overall economy and has started to rebound before the recession has ended. Accordingly, the decline in this index for the period from just before the downturn into the early months of recession should give an early indication of the decline in GNP. Specifically, the Center's analysis compares the percentage decline in the Long Leading Index from 5 months before to 5 months after the cyclical peak against the decline in GNP over the whole recession.

The results of this analysis are depicted in the chart below, which shows the actual and estimated decline in GNP for each of the eight recessions since 1948. The estimates are on target in some instances, not especially accurate in others; overall, the relationship is reasonable but certainly not precise.

The forecast for the 1990-91 recession is shown at the right end of the chart — a projected decline in GNP of 2.2 percent. This would make it a recession of moderate severity, not as mild as the mildest in our sample, nor as severe as the worst. But since the historical relationship on which this calculation is based is somewhat imprecise, maybe we'd better wait for this economic slowdown to run its course before deciding whether it is the optimists or the pessimists who should feel embarrassed about their forecasts.

Forecasting the Depth of Recessions

Estimated and Actual Changes in Real GNP, Peak to Trough



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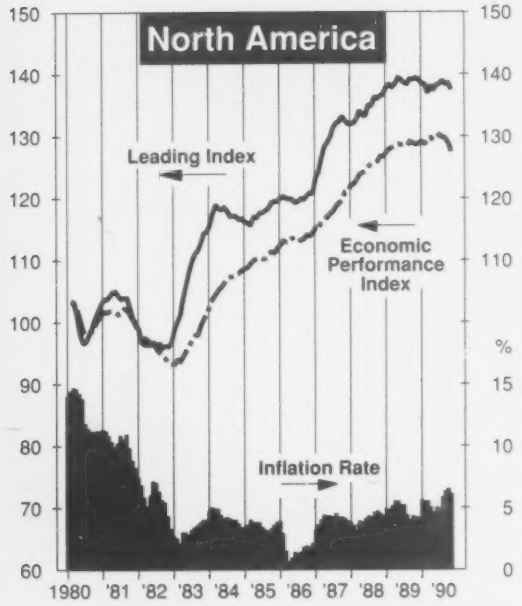
Widespread Weakness

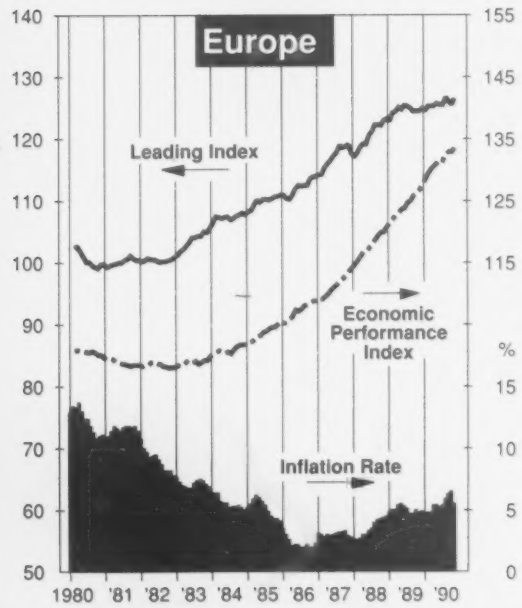


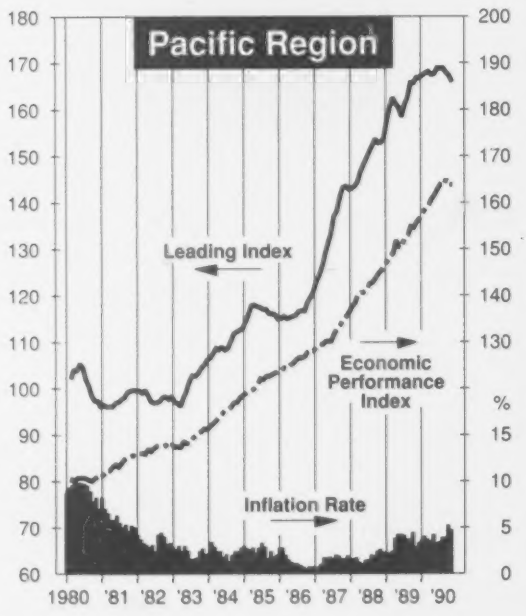
The regional series reflect the more widespread weakness mentioned earlier. In North America, both the leading and performance indexes are down from their peaks noticeably—hardly surprising when both the U.S. and Canadian economies are in a downturn.

In the Pacific region, over the past 3-4 months, the leading index is down a couple percent, with 4 of the 5 countries contributing to the weakness. The performance index for the region is flat, however.

Thanks to Germany, the outlook in Europe is not as bleak as in the other two regions. But prospects aren't favorable, either; note, for example that the European leading index has almost leveled off.

The inflation pattern is similar in all three regions: The general price level accelerated in August and September with the surge of oil prices, but the pace slowed down a bit in October. Some further easing can be expected in the months ahead —everywhere because of the drop in oil prices, and almost everywhere because of the business-cycle downturn.

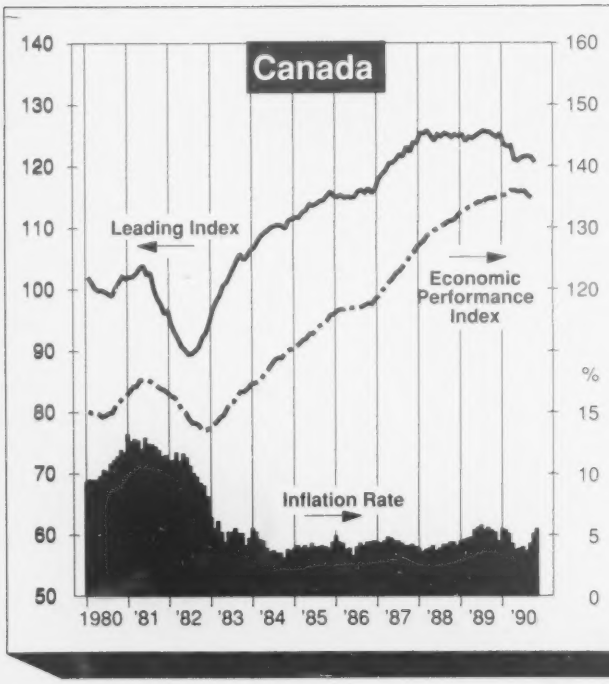




A Confirming Drop in the Indexes

Both U.S. cyclical indexes dropped sharply in November, confirming the slowdown that began over the summer. The drop was widespread, too; of the nine leading-index components that were available for November, seven declined. The pronounced exception was common stock prices.

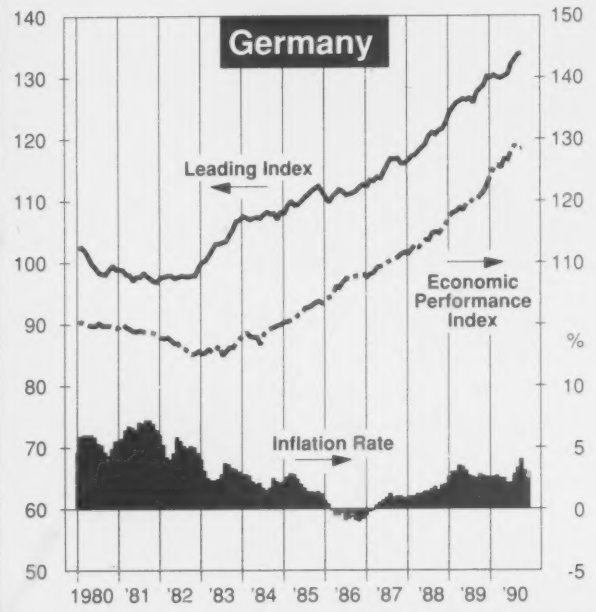
For the standard reasons — oil prices and the economic downturn — the U.S. inflation rate slowed in December for the second month in a row.



More of the Same

The Canadian leading index has been sluggish and then falling longer than its U.S. counterpart, but the two performance indexes (Canada and U.S.) trace a more nearly identical pattern. Data on Canadian employment and unemployment for both November and December show the cyclical downswing continuing.

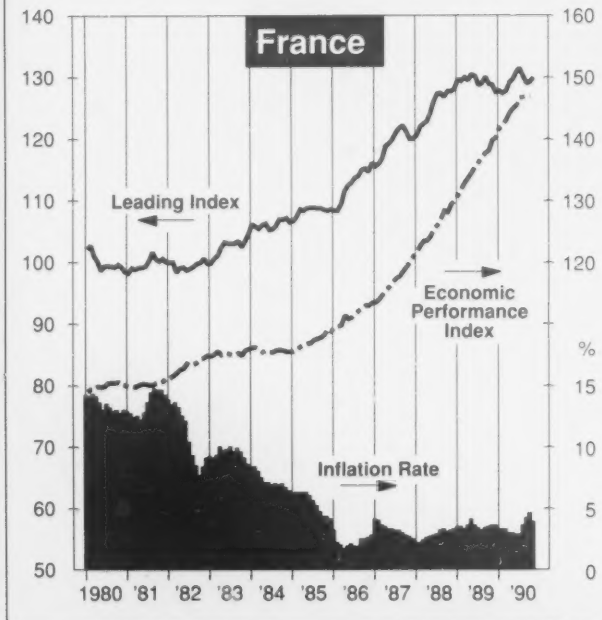
In contrast to the United States, the Canadian inflation rate is still accelerating though November.



The Dramatic Exception

With sturdy growth continuing in both its cyclical indexes — at a 6 percent rate in the performance index and at a 5 percent rate in the leading index — Germany is still the dramatic exception. In view of the country's significant orientation toward exports, and the sluggish economic pattern in the rest of the industrial world, this strength is especially impressive. Perhaps the encouraging signals won't last, but so far, so good.

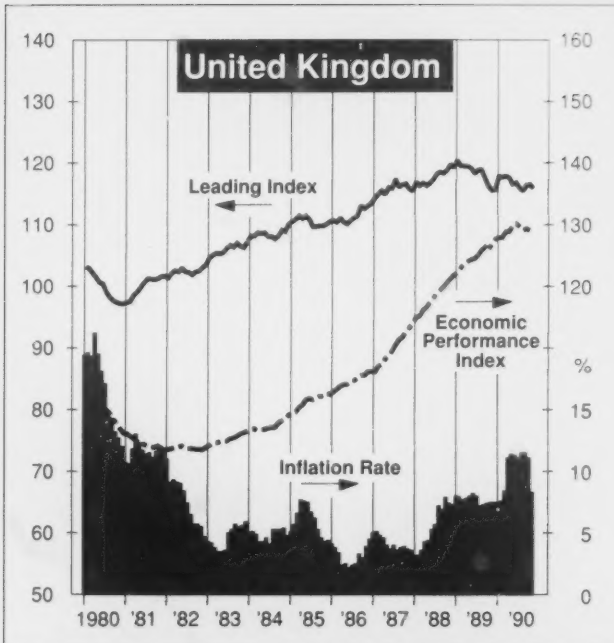
The German inflation rate, after an uptick in October, has subsided below 3 percent again.



Steady and a Bit Dull

The French indexes just don't seem to generate much excitement these days. The performance index, as it has for so long, continues to advance steadily, while the leading index bounces up and down around a more or less flat track.

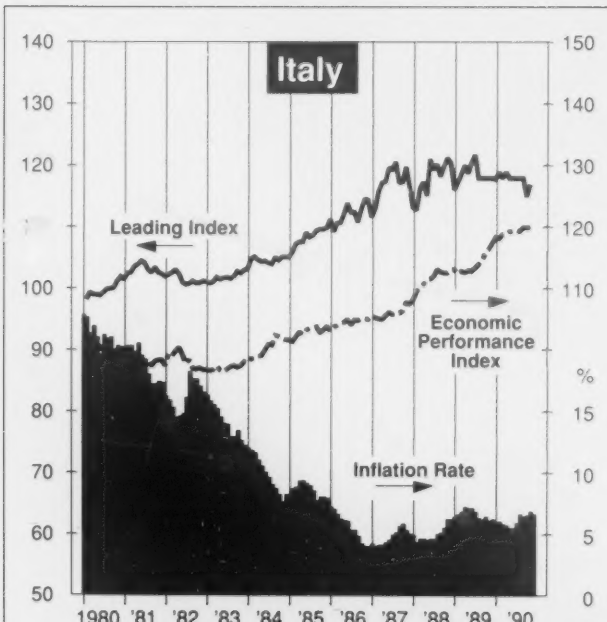
The inflation rate in France is tracing the standard pattern: It dropped back a bit in November after accelerating in August, September and October.

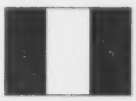


Nearer Recession Unto Thee

The cyclical indexes for the United Kingdom are not decisive, but every month they say "recession" with a stronger voice. The leading index has been declining slowly and irregularly for close to two years. The performance index continued to inch higher until this past June; since then it has sagged just half a percent.

The inflation rate remains high, but slowed abruptly in November — down more than 3 percentage points! Lower mortgage interest rates and a drop in oil prices are the main reasons for this dramatic change.

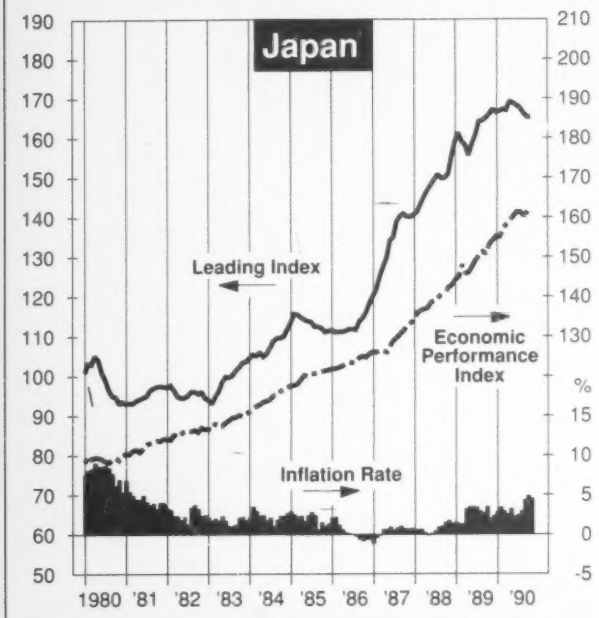




A Volatile Switch Toward Pessimism

The Italian leading index has been moving erratically for several years now. A month ago the latest swing suggested optimism. This month, unfavorable movements in such component series as working hours, bankruptcies, and the price-cost ratio switched the leading index in the pessimistic direction. The performance index, however, has continued to rise sluggishly.

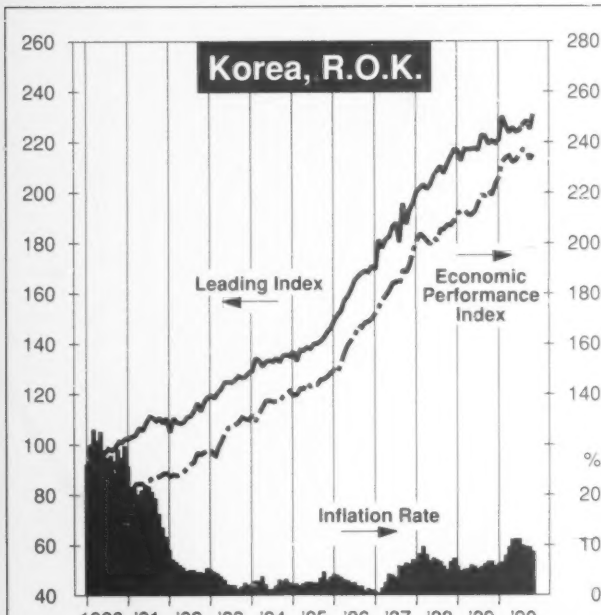
The Italian price level continues to rise at an annual rate near 6.5 percent.



Limited Signs of Weakness

The Japanese leading index — stock prices most noticeably — reversed course last June, and by November had fallen off 2 percent. Thus far the performance index hasn't taken notice of this 5-month weakness in the leaders, but has, instead, continued to advance steadily.

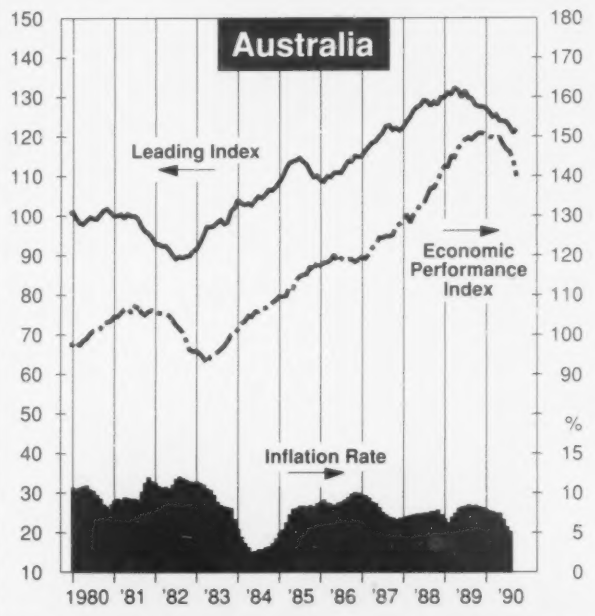
The Japanese price index accelerated with the hike in oil prices last summer, and continues to rise at a 4.5 percent pace.



Caution Ahead

In spite of posting high performance and leading index growth rates, the word for the Korean economy in 1991 is caution. Since Korea depends heavily on imported oil, the uncertainty of the Middle East crisis is going to hamper the economic mood. Moreover, increasing trade frictions with the United States, its largest trading partner, will slow the export growth that fueled the economic growth of the 1980s.

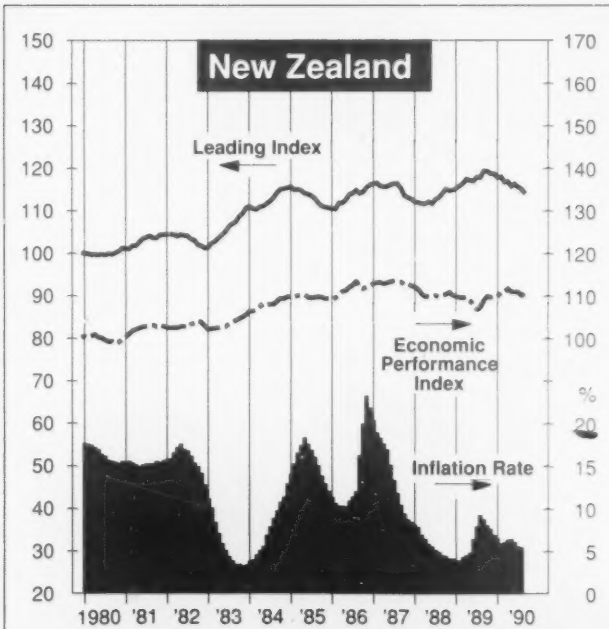
Nevertheless, there is some good news from Korea. Erratic stock and real estate markets seem to have stabilized. Construction is booming. Relationships are improving with northern neighbors, North Korea, China, and the Soviet Union. The bottom line is that the Korean economy should grow about 5 to 7 percent in 1991 — strong performance but well below the 11 percent average of the late 1980s.

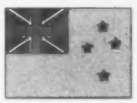


Recession Intensifies

Australia has been in recession for at least half a year, but until November the downswing was proceeding at a very gradual pace. In November, however, the performance index plunged a hefty 3 percent. The leading index, by contrast, rebounded a point in November--nothing to get excited about, of course, but the first ray of hope for the Aussie economy in many months has to be noted, no matter how faint.

Inflation continues to decelerate sharply Down Under — from about 8 percent in the summer of 1989, the rate had dropped to 5 percent by August.

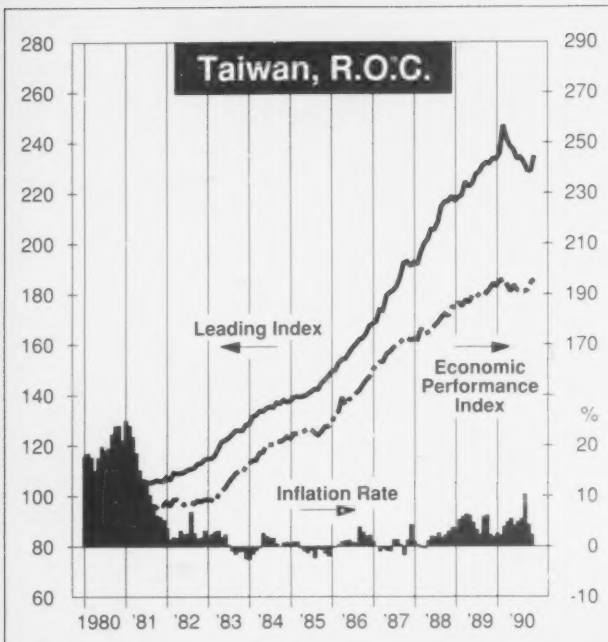


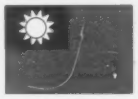


Leaders Sagging Again

The Kiwi economy has been moving sideways for several years — a recession basically, but stagnation rather than actual decline. From time to time the leading index improves, suggesting a cyclical revival, but no rebound has developed. Since early 1990, the leaders have been moving downward again, perhaps enough now to point toward a full-fledged contraction in economic activity.

Inflation continues to slow down very gradually.





Possible Bounce-Back

The Taiwanese leading index, which dropped sharply through most of 1990, was followed by a flattening of the overall economy. Then the leading index rebounded sharply in November. Much of the 8-month decline, and much of the November reversal as well, can be traced directly to stock prices. However, construction orders and the money supply also increased vigorously in November, raising hopes that the cyclical pause of 1990 will give way to renewed expansion before too long.

The Taiwanese inflation rate, which averaged around 5 percent during 1989 and the first half of 1990, has now been cut in half.

THE INTERNATIONAL ECONOMIC INDICATOR SYSTEM

This publication is designed to help readers monitor the ups and downs of the business cycle around the world. To this end, three statistical series are shown for each country. One is the inflation rate, calculated from the consumer price index compiled by the official statistical agency. The other two are cyclical indexes—an index of economic performance and a leading index. All of the cyclical indexes are based on 1980=100. The economic performance indexes are composites of such series as real GNP, industrial production, employment and sales—what analysts call "coincident" series, because they define the business cycle.

The leading indexes are composites of such series as new orders, construction contracts, corporate profits and stock prices—indicators that usually anticipate changes in production and employment by several months. Thus the indexes of economic performance tell us the current status of the business cycle, i.e., where we are, while the leading indexes tell us where the economy is headed.

Experience has shown that when the leading index begins to rise faster, it is a fairly safe rule that the economy will soon begin to rise faster too— typically after three or four months. When the leading index begins to rise more slowly or to decline, the economy is likely to follow suit shortly thereafter. (For details, see Phillip A. Klein and Geoffrey H. Moore, *Monitoring Growth Cycles in Market-Oriented Countries*, Ballinger Publishing Co. 1985.) Considerable variation in the length of the lead is to be expected, however. Constant monitoring is needed to make effective use of the system and to get early warnings of recessions and recoveries, changes in foreign trade flows, and new inflationary trends.

The indexes were developed by Geoffrey H. Moore and Philip A. Klein, and are maintained by the Center for International Business Cycle Research at the Columbia Business School. (The U.S. indexes used here differ slightly from the indexes reported monthly by the U.S. Department of Commerce.) To facilitate analysis the indexes are adjusted so their long-run growth rates are equal to those in real GNP in the country concerned. Growth rates are shown in the first column of the table on page 2.

David Chon, Editor

For more information:

For more about this indicator system and the availability of detailed data for each country please address inquiries to: Center for International Business Cycle Research, Columbia Business School, New York, NY 10027 - Telephone: 212-280-2916.

INDEXES, WORLDWIDE AND BY REGION, 1989-90

		11 Countries		10 Countries excl. U.S.		North America (2)		Europe (4)		Pacific Region (5)	
		Indexes, 1980 = 100									
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
July	**89**	**132**	**138**	**135**	**138**	**128**	**138**	**124**	**124**	**152**	**162**
Aug.	**89**	**133**	**139**	**136**	**139**	**129**	**139**	**125**	**124**	**154**	**165**
Sept.	**89**	**133**	**140**	**136**	**139**	**128**	**139**	**126**	**124**	**154**	**165**
Oct.	89	133	140	137	139	128	139	126	124	155	165
Nov.	89	134	140	138	139	128	139	127	124	156	166
Dec.	89	135	140	139	140	129	138	128	124	157	167
Jan.	**90**	**135**	**140**	**140**	**140**	**128**	**138**	**129**	**125**	**158**	**167**
Feb.	**90**	**136**	**139**	**140**	**140**	**129**	**136**	**130**	**125**	**159**	**167**
Mar.	**90**	**136**	**140**	**141**	**140**	**129**	**138**	**130**	**125**	**160**	**167**
Apr.	90	136	139	142	140	129	137	130	125	161	167
May	90	137	140	142	140	129	138	131	125	162	168
June	90	138	140	143	140	130	138	131	125	163	168
July	**90**	**138**	**140**	**144**	**141**	**129**	**138**	**132**	**126**	**163**	**168**
Aug	**90**	**138**	**140**	**144**	**140**	**129**	**138**	**132**	**126**	**164**	**167**
Sept.	**90**	**137**	**140**	**143**	**140**	**128**	**138**	**132**	**125**	**163**	**166**
Oct.	90	137	139	144	140	127	137	133	126	163	165
		Growth Rates, Percent									
July	**89**	**4**	**3**	**6**	**3**	**2**	**1**	**5**	**2**	**7**	**6**
Aug.	**89**	**5**	**3**	**6**	**5**	**2**	**2**	**6**	**1**	**7**	**9**
Sept.	**89**	**4**	**3**	**6**	**4**	**1**	**2**	**5**	**2**	**7**	**8**
Oct.	89	4	3	6	3	1	1	5	1	6	7
Nov.	89	4	2	6	3	1	1	6	0	7	7
Dec.	89	4	2	6	3	1	0	6	1	7	6
Jan.	**90**	**4**	**1**	**7**	**3**	**0**	**–1**	**7**	**1**	**7**	**5**
Feb.	**90**	**4**	**1**	**7**	**3**	**1**	**–3**	**7**	**1**	**7**	**5**
Mar.	**90**	**5**	**1**	**7**	**2**	**1**	**–1**	**7**	**1**	**8**	**4**
Apr.	90	4	1	7	2	1	–2	6	1	8	3
May	90	4	1	6	2	1	0	6	1	7	4
June	90	4	1	6	2	2	0	6	1	7	3
July	**90**	**4**	**1**	**6**	**2**	**1**	**1**	**6**	**2**	**7**	**2**
Aug	**90**	**3**	**1**	**5**	**1**	**0**	**0**	**5**	**2**	**6**	**0**
Sept.	**90**	**2**	**0**	**4**	**0**	**–1**	**0**	**4**	**1**	**4**	**–1**
Oct.	90	1	–1	3	0	–2	–1	4	1	4	–2
		Ten Year Annual Growth Rate, Percent									
		3	3	3	3	3	3	2	2	4	4

INDEXES, ELEVEN COUNTRIES, 1989-90

		U.S.		Canada		West Germany		France		U.K.		Italy		Japan		Australia		Taiwan, R.O.C.		Korea, R.O.K.		New Zealand	
		Indexes, 1980 = 100																					
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
July	**89**	**128**	**139**	**134**	**125**	**120**	**127**	**136**	**129**	**125**	**119**	**114**	**118**	**150**	**162**	**148**	**130**	**190**	**229**	**217**	**218**	**108**	**117**
Aug.	**89**	**128**	**140**	**134**	**125**	**120**	**126**	**137**	**129**	**126**	**119**	**115**	**116**	**151**	**165**	**149**	**132**	**191**	**231**	**220**	**224**	**107**	**118**
Sept.	**89**	**128**	**140**	**134**	**125**	**120**	**128**	**138**	**130**	**126**	**118**	**116**	**118**	**152**	**165**	**150**	**130**	**190**	**232**	**220**	**224**	**108**	**118**
Oct.	89	128	140	134	124	121	128	138	129	126	116	116	118	152	166	149	130	192	232	222	220	109	119
Nov.	89	128	140	134	124	122	129	140	129	127	116	117	118	154	167	150	128	194	234	220	222	110	119
Dec.	89	128	139	135	125	123	130	140	128	128	116	118	118	155	168	151	128	193	234	224	221	110	119
Jan.	**90**	**128**	**139**	**135**	**123**	**124**	**130**	**142**	**128**	**128**	**118**	**118**	**119**	**156**	**167**	**151**	**128**	**197**	**236**	**227**	**222**	**110**	**119**
Feb.	**90**	**128**	**138**	**135**	**123**	**125**	**130**	**142**	**127**	**128**	**118**	**119**	**118**	**156**	**168**	**150**	**127**	**193**	**247**	**233**	**231**	**110**	**118**
Mar.	**90**	**129**	**139**	**136**	**123**	**126**	**130**	**143**	**128**	**129**	**118**	**119**	**119**	**158**	**168**	**150**	**126**	**194**	**242**	**235**	**227**	**111**	**118**
Apr.	90	128	138	136	120	125	130	144	129	129	118	119	118	159	168	150	125	191	239	236	225	111	117
May	90	129	140	135	120	127	130	145	130	130	117	119	118	160	170	150	126	194	238	233	227	112	117
June	90	129	140	135	121	127	131	145	131	130	117	120	118	161	170	150	124	192	234	234	225	111	116
July	**90**	**129**	**140**	**135**	**121**	**128**	**132**	**147**	**132**	**130**	**116**	**119**	**118**	**162**	**169**	**148**	**124**	**191**	**234**	**236**	**226**	**111**	**116**
Aug.	**90**	**129**	**140**	**135**	**121**	**129**	**133**	**147**	**130**	**129**	**116**	**120**	**118**	**162**	**168**	**147**	**124**	**191**	**233**	**238**	**228**	**111**	**116**
Sept.	**90**	**128**	**140**	**134**	**121**	**128**	**134**	**147**	**129**	**130**	**116**	**120**	**115**	**161**	**167**	**146**	**123**	**192**	**229**	**238**	**230**	**110**	**115**
Oct.	90	127	139	134	120	129	134	147	129	129	117	120	117	162	166	144	121	195	229	234	226	111	114
Nov.	90	125	136						130		116			163	166	140	122	196	235	236	232		
		Growth Rates, Percent																					
July	**89**	**2**	**1**	**3**	**1**	**5**	**5**	**8**	**0**	**5**	**–1**	**2**	**1**	**6**	**7**	**11**	**1**	**5**	**6**	**6**	**2**	**–4**	**3**
Aug.	**89**	**2**	**2**	**3**	**1**	**5**	**3**	**8**	**0**	**5**	**–1**	**3**	**2**	**7**	**10**	**11**	**3**	**5**	**9**	**7**	**7**	**–5**	**4**
Sept.	**89**	**1**	**2**	**3**	**1**	**4**	**5**	**8**	**2**	**5**	**–2**	**4**	**1**	**7**	**9**	**10**	**0**	**4**	**9**	**7**	**6**	**–3**	**4**
Oct.	89	1	2	2	0	4	5	7	–1	5	–4	5	1	6	8	7	–1	5	7	7	2	–1	5
Nov.	89	1	1	2	–1	5	5	8	–1	4	–5	6	1	7	8	7	–3	6	8	5	3	1	4
Dec.	89	1	0	2	0	6	6	7	–3	5	–4	7	1	7	7	7	–4	4	7	7	1	1	3
Jan.	**90**	**0**	**–1**	**2**	**–2**	**7**	**5**	**8**	**–2**	**4**	**0**	**6**	**2**	**7**	**6**	**6**	**–4**	**7**	**7**	**9**	**2**	**2**	**2**
Feb.	**90**	**1**	**–3**	**2**	**–2**	**8**	**5**	**8**	**–3**	**4**	**0**	**7**	**1**	**7**	**5**	**4**	**–5**	**3**	**15**	**13**	**10**	**2**	**1**
Mar.	**90**	**1**	**–1**	**2**	**–2**	**8**	**3**	**8**	**–2**	**4**	**0**	**6**	**1**	**8**	**5**	**2**	**–6**	**2**	**9**	**13**	**5**	**2**	**–1**
Apr.	90	0	–2	2	–5	6	3	8	1	4	0	5	1	9	4	2	–6	–1	5	12	2	2	–2
May	90	1	0	1	–5	7	3	8	1	4	–1	4	1	8	5	0	–5	2	3	8	4	4	–2
June	90	2	0	1	–4	6	3	7	3	4	–1	4	–1	8	4	1	–6	–1	–1	8	1	2	–3
July	**90**	**1**	**1**	**1**	**–3**	**7**	**4**	**8**	**4**	**3**	**–2**	**3**	**1**	**8**	**3**	**–2**	**–6**	**–1**	**–1**	**8**	**2**	**3**	**–2**
Aug.	**90**	**0**	**1**	**0**	**–3**	**8**	**5**	**7**	**2**	**2**	**–3**	**3**	**–1**	**7**	**0**	**–4**	**–5**	**–2**	**–3**	**8**	**3**	**2**	**–3**
Sept.	**90**	**–1**	**1**	**–1**	**–2**	**6**	**5**	**6**	**0**	**2**	**–1**	**3**	**–5**	**5**	**–1**	**–5**	**–6**	**–1**	**–5**	**7**	**5**	**–1**	**–4**
Oct.	90	–2	–1	–2	–3	6	5	5	0	1	0	1	–2	5	–2	–6	–7	2	–5	2	1	0	–5
Nov.	90	–4	–4						1		–1			5	–2	–11	–4	2	–1	3	5		
		Ten Year Annual Growth Rate, Percent																					
1976-86		3	3	3	3	2	2	2	2	2	2	2	2	4	4	3	3	8	8	7	7	2	2